



OFFICE OF THE
STATE AUDITOR

May 23, 2023

Mayor Dan Spencer and Town Council
Glendale Town
90 East Center St
Glendale UT 84729

Dear Mayor Spencer and Council Members:

The Office of the State Auditor (Office) offers a hotline, through which it receives complaints about actions with financial implications of state and local governments and suggestions for improvements in the efficiency of those governments. The Office received a complaint alleging that Glendale Town (Town) is in noncompliance with certain Utah Code requirements regarding the separation of clerk and treasurer duties.

Based on our discussion with Mayor Spencer, the Town's clerk is also functioning as the treasurer. This is not compliant with *Utah Code* 10-3-301(7) and places the Town at high risk for potential fraud and significant errors. This risk level warrants your immediate review and remediation. We recommend that you:

1. Appoint one individual to perform the duties of the clerk and another individual to perform the duties of the treasurer, as required by *Utah Code* 10-3-301(7). If the Town does not have sufficient budget to hire a second employee, a member of the council, other than the council chair, may also serve as the treasurer. Although council members may alternate serving as treasurer, only one council member may serve at a time and should serve long-term.
2. Ensure the mayor does not also serve as the clerk/recorder or treasurer, as required by *Utah Code* 10-3-301(7)(a).
3. Refer to the attached Auditor Alert 2017-4 for guidance to ensure all clerk and treasurer duties are properly assigned and separated. You may also consult the Office's Local Government Resource Center found on our website at auditor.utah.gov/resources/ for additional separation of duties, fraud risk assessment, as well as other resources, to ensure the Town's procedures adhere to statute and best practice recommendations.
4. Incorporate the proper separation of clerk and treasurer duties into the Town's written policies and procedures to help ensure that future mayors and councils continue the practice.

5. If the mayor and at least one member of the Town council have not already done so, perform a detailed review of the Town's monthly bank account reconciliations for at least the past year to identify potential errors or improprieties. The independent reviewer should:
 - Obtain the original bank statements directly from the bank or online bank access.
 - Review the statements for unrecognized or unusual disbursements.
 - Review the reconciliations for unexplained or abnormal reconciling items.
 - Ensure mathematical accuracy of the reconciliations.
6. Report any suspected fraud, waste, or abuse at hotline@utah.gov or 801-538-9777.

Our procedures were limited to matters related to the complaint. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you. We appreciate the courtesy and assistance extended to us by Town personnel during our review. We look forward to a continuing professional relationship. If you have any questions related to the above recommendations, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Leslie Larsen".

Leslie Larsen, CPA, CFE
Audit Supervisor
leslielarsen@utah.gov
801-808-0379



OFFICE OF THE
STATE AUDITOR

Auditor Alert 2017-04

Date: December 18, 2017

Subject: Separation of Duties between the Clerk and Treasurer

Background

For the protection of public officials, the law requires a separation of duties between the collection and payment of government money. The intent of duty separation is to prevent a single person from having unchecked access to public funds. Theft and misappropriation of government funds are most likely to occur when proper separation of duties are not maintained. For these reasons, we consider proper separation of duties to be of utmost importance.

Application in Different Local Governments

The term "Clerk" referenced within the Utah State Code is the person who performs the accounting function. Specific job titles vary depending on the type and size of the local government entity (e.g. Recorder, Finance Officer, Accountant, Auditor, and Manager). In entities without a dedicated Treasurer position, the duties of the treasurer duties are performed by a Manager, Administrator, or Board Member.

Identified Financial Duties

The Clerk function, as it applies to the collection, payment and accounting of money, includes four duties:

1. Perform the accounting function.
2. Review invoices and requests for payment to verify authorization and compliance with purchasing policy, budget, and debt limits.
3. Prepare and maintain custody of checks.
4. Reconcile the bank statement to accounting records.

The Treasurer function, as it applies to the collection, payment, and custody of money, includes 4 duties:

1. Receive all payments.
2. Deliver money to bank within 3 business days.
3. Be the custodian of all cash and depository accounts.
4. Sign checks after verifying sufficient funds are available to honor payment.

Applicable State Laws

Counties	<i>Utah Code 17-19a, 17-24, 17-36-45</i>
Towns	<i>Utah Code 10-5-123,125,127</i>
Cities	<i>Utah Code 10-6-139,141,143</i>
Local/Special Service Districts	<i>Utah Code 17B-1-632 through 635</i>
Interlocal Entities	<i>Utah Code 11-13-402(5)(b), 11-13-5</i>

Frequently Asked Question: While a portion of these questions use scenarios specific to small entities, it conceptually applies to all entities.

How Separation of Duties Acts as a Control

1. How does the separation of duties provide a safeguard in the cash receipting process?

A safeguard over the cash collected by the entity is established by the requirement of the Treasurer to issue a receipt and deposit the cash in the bank within three business days. A receipt creates a record of a cash payment that allows the payer to prove that payment was made. The receipt also creates an accounting record that will be retained and compared to the bank's records of cash deposits. This comparison is called a bank reconciliation. The Clerk must perform the bank reconciliation in order to provide an independent check on the Treasurer's custody of the entity's cash. An additional safeguard over cash is established by the requirement to provide a surety bond on the Treasurer.

2. How does the separation of duties provide a safeguard in the check payments process?

A safeguard over the checks written by the entity is established by the requirement of the Clerk to prepare and maintain custody over each check. Prior to creating a check, the Clerk verifies that the payment is authorized and within budget and debt limits. The checks are then sent to the Treasurer, or other designee, for signing. The Treasurer, or someone other than the Clerk, then verifies that there were no unauthorized check payments. This person verifies this by directly receiving the bank statements from the bank and reviewing all cleared checks. Another safeguard over disbursements exists in the bank reconciliation process, where the Clerk verifies that any cash withdrawals or electronic payment have been entered into the accounting records and authorized.

3. How does separation of duties provide a safeguard in the utility billing and adjustment process?

Another key separation of duties within cash receipting is the separation of cash receipting, utility billing, and the account adjustments process. The risk in this process is that the person receiving payments (Treasurer or a Cashier) could avoid detection of theft through inappropriate manipulation of the utility account system. Without proper separation of duties, the Treasurer, or Cashier, could issue a receipt for a cash payment on a utility account, pocket the cash, void the receipt, then adjust the utility account to reduce the amount owed by the amount of the stolen payment. This would cause the account balance to reflect the payment, while causing the cash receipting system to omit the payment. Therefore, the cash receipting record in the accounting system would agree with the bank deposit record. This means the bank reconciliation process would not identify the theft. Therefore, it is essential that the Treasurer, or Cashier, issue a receipt for cash payments and *not* have access to adjust the utility accounts without independent review. With this separation in place, the theft of cash payments would likely be detected because the utility account balance would remain as if the payment had not been made, while the customer could prove that payment was made using the receipt issued at the time of payment.

Managing Duties within Small Entities

4. How can a district with only three board members and no staff maintain the required separation of duties between the Clerk and Treasurer?

In a district with only three board members and no paid or volunteer staff, the three board members select one member to act as Chairman, another member to act as Clerk, and the third member to act as Treasurer.

5. How can a district with only one staff member abide by the separation of duties between the Clerk and Treasurer?

In a district with only one staff member, the board selects one board member to act as Chairman, appoints the staff member as either the Treasurer or the Clerk, and appoints a board member as the remaining Treasurer or Clerk role.

6. How can a district with two staff abide by the separation of duties between the Clerk and Treasurer?

In a district with two staff members, the board may appoint one staff member as the Clerk and the other staff member as the Treasurer. Alternatively, the second staff member could be a deputy to the first staff member, which would necessitate a board member appointment as outlined in #5 above.

7. Can the duties of the Clerk and Treasurer be performed by the same person?

No. The Clerk and Treasurer functions must be performed by two separate individuals, but may be volunteers or board members. When either the Clerk or the Treasurer is not available to perform those duties, the board should appoint other volunteers or board members, to serve as a deputy Clerk or Treasurer.

8. If the sole employee of an entity performs utility account management, how can utility payment collections and deposits be handled while still maintaining proper separation of duties?

The collection and deposit of utility payments in this scenario can be completed by having a secured drop box or offsite mailing address, like a P.O. Box. Both collection locations must be exclusively controlled by someone not performing the utility account management function, most likely the Treasurer. The Treasurer should:

- a. Collect payments at least every three days.
- b. Record all relevant information from the check, including:
 - 1) Amount
 - 2) Payer
- c. Create a deposit and deliver it to the bank.
- d. Send the documentation to the Clerk for entering into the accounting record.

Each signer of a local government check should verify that each check is for an appropriate purpose before signing the check. A second signature on a check enables a second person to review the appropriateness of the payment. A failure to understand the nature of the payment before signing is a failure to provide adequate oversight.

9. When is a two-signature check required in local government?

A two-signature check is a way that an entity can apply oversight to the cash payment process. A check does not need two signature lines to bear two signatures. Utah State Law requires Local and Special Districts with budgeted expenditures of less than \$50,000 to have a member of the board sign all checks *in addition* to the Treasurer. Any entity may decide to adopt a policy which requires secondary signatures on all checks. Note that a bank will clear a two-signature check with only one signature. Accordingly, if there is a requirement for a check to have two signatures, the entity will need to monitor and enforce that requirement internally.

10. Is a two-signature check an effective control over cash payments?

Yes, but only when accompanied by a corresponding control to verify the second signature is on all checks (see question #2) and the signers have reviewed the appropriateness of the payments.

17 MAY 2023

OFFICE OF THE STATE AUDITOR

AUDITOR SUPERVISOR
LESLIE LARSON CPA, CFE

DEAR MISS LARSON:

The Town of Glendale has received your letter dated May 16, 2023, regarding the complaints submitted to the Attorney General's office. Please consider this as our official response.

Historically, the Town of Glendale has had only one clerk and the Town Council is currently acting as the Treasurer. This has been the standard operation for our town and has been ongoing for several years; as it was our understanding that the clerk could process invoices, collect, and/or deposit funds to the appropriate account(s), and maintains verified deposit records.

Expenses:

The Council has been acting as Treasurer to scrutinize the financial records monthly to ensure that the expenditures are legitimate. Board meetings are held monthly and open with agenda items to review the town's monthly expenses and finances. After reviewing the financial documents, it is put to a vote to pass or deny the financials. Then and only then are the checks signed to pay the bills of Glendale Town.

Reconciliations:

All bank statements and accounting software have been and still are reconciled by a third-party independent accountant outside of Glendale for the last year and four months. All statements, expense reports, and company overviews are also then approved by myself and other council members and initialed by me to prove they were reviewed and validated.

The Clerk is the only person that has access to the financials on a daily basis. Under state law, the Mayor can review the books from time to time. An annual AUP audit is performed by an independent agency which has recently been finalized for the fiscal year of 2022.

Remedies:

To remedy the problem with the clerk taking money and doing deposits we will either hire a treasurer or we will designate one single council member to do the job of Treasurer long-term, and to bring Glendale into compliance. This will be discussed in our next meeting on Thursday the 18th of May.

We will also incorporate this including the stipulation that the Council Chair cannot act as Clerk, Recorder, or Treasurer per Title 10 of the Utah State Code, into our written policies to ensure that future Mayors and Counselors continue the policy.

We appreciate the opportunity to be in compliance with the State of Utah and look forward to improving our policies and procedures.



Mayor Dan Spencer
Glendale Town Corp
(435) 691-5479
clerk@glendaletown.org

Auditor Concluding Comment

We remind the Town that *Utah Code* 10-3-301(7)(a) prohibits the mayor from serving as the clerk/recorder or treasurer. The policy should clearly state this restriction.